HOUSING MARKET OUTLOOK

St. John's - Date Released: Spring 2006

Demand to Ease for Both New and Existing Homes in 2006

Higher interest rates, weakening labour market conditions and below average income growth will continue to gradually cool home ownership demand as well as the renovation and refinance sectors in 2006. As a result, housing starts activity will decline moderately within the St. John's region. With a variety of housing-related costs continuing to climb, both buyer price sensitivity and affordability will become driving forces across all segments of the local housing market. Expect the overall level of activity to moderate this year and next, as higher mortgage carrying costs due to historically strong house price growth and modest increases in mortgage rates continue to ease the demand for both new and existing homes.

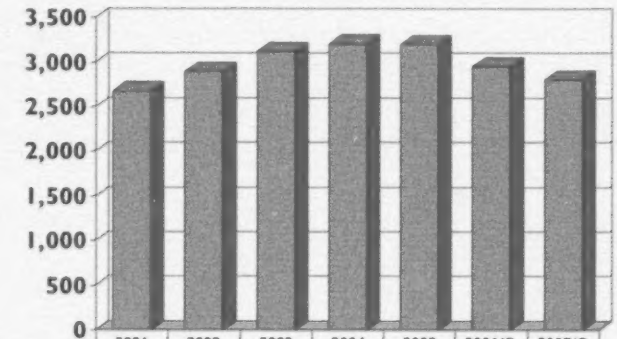
Resale Market

MLS® SALES BEGIN TO PULL BACK

After posting record sales for six years and remaining flat in 2005, the local resale

MLS® Sales Begin to Pull Back

MLS® Sales - St. John's and Area



	2001	2002	2003	2004	2005	2006(f)	2007(f)
MLS® Sales	2,675	2,893	3,119	3,203	3,196	2,950	2,800

Source: Newfoundland and Labrador Association of Realtors® (NLAR®), CMHC forecast.

In This Issue

1 Demand to Ease for Both New and Existing Homes in 2006

1 Resale Market: MLS® Sales Begin to Pull Back

2 Balanced Market Conditions Expected to Continue

2 Price Gains Limited due to Balanced Market

3 New Homes Market: Housing Starts Activity Continues to Moderately Decline

3 Slight Increase in Multiple Starts Activity

3 Rental Market: Vacancy Rate Edges Higher

4 Forecast Summary Table

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market has hit a turning point and is expected to gradually edge lower this year and next. Accordingly, our forecast calls for MLS® sales reported through the Newfoundland and Labrador Association of Realtors® (NLAR®) to decline 7.7 per cent to 2,950 units in 2006 and 2,800 units the following year. With a significant portion of MLS® sales now comprised of new home sales, the expected decline in housing starts will have a negative impact on MLS® sales over the forecast period. The recent surge in active listings during the first quarter has provided much more choice in the marketplace and lured buyers away from the new home market. This is a major reason behind the healthy level of MLS® sales activity experienced to date.

Price Gains Limited due to Balanced Market

Bungalow

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006(f)
St. John's East	$152,000	$166,500	$168,000	$175,728
St. John's West	$147,000	$158,000	$168,000	$175,728
Mount Pearl	$142,000	$153,000	$166,000	$173,636

Two Storey

	Dec. 2003	Dec. 2004	Dec. 2005	Dec. 2006(f)
St. John's East	$205,000	$230,000	$248,000	$259,408
St. John's West	$195,000	$234,000	$240,000	$251,040
Mount Pearl	$203,000	$230,000	$239,000	$249,994

Source: CMHC Benchmark House Price Survey.

BALANCED MARKET CONDITIONS EXPECTED TO CONTINUE

After three years of sellers market conditions in the St. John's region, the market became balanced in mid-2005, as strong sales activity was offset by a steady climb in active listings. The resale market remained balanced throughout the first quarter of 2006. With a wider array of choices in the marketplace, home buyers are able to shop around. As a result, listing times are getting longer and the growth in house prices is showing signs of easing. With the current market balanced, Realtors® will find it increasingly difficult to close deals as sellers' and buyers' price expectations grow further apart, due to rising prices and increased buyer price sensitivity. Home buying demand is expected to continue to slow and listings are expected to remain high and continue to increase over the forecast period. Accordingly, the local resale market should move to a buyer's position by early next year. In fact, there have been recent signs of weakness in the $250,000 segment.

Balanced Market Conditions Expected to Continue

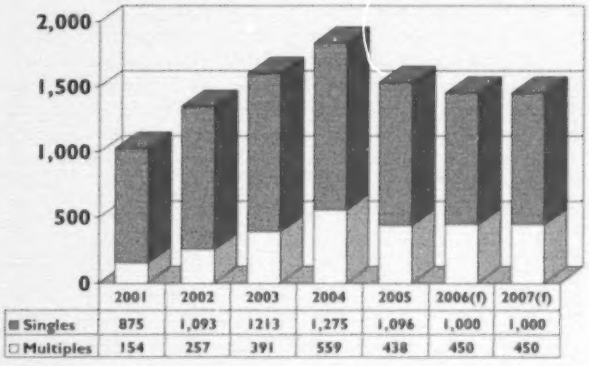
Source: Newfoundland and Labrador Association of Realtors® (NLAR®), CMHC forecast.

PRICE GAINS LIMITED DUE TO BALANCED MARKET

With the market now balanced for almost a year, expect to see slower rates of price growth this year and next. Our average existing house price is forecast to increase 4.6 per cent to $148,000 this year and 3 per cent to $152,500 in 2007. With move-up buyers remaining active, two story homes will continue to experience price growth, albeit at a reduced level compared to the previous three years. The rising cost of home ownership vis-à-vis higher mortgage carrying costs and heating costs, will likely lead to reduced demand from first-time home buyers this year. As a result, demand for bungalows will ease somewhat and price growth will moderate from the levels experienced over the previous three year period. Based on our benchmark house price survey, price growth for both two-story and bungalow dwellings is forecast to be on par with our average existing house price forecast.

Housing Starts Activity Continues to Moderately Decline

Housing Starts- St. John's CMA



	2001	2002	2003	2004	2005	2006(f)	2007(f)
Singles	875	1,093	1213	1,275	1,096	1,000	1,000
Multiples	154	257	391	559	438	450	450

Source: CMHC, Forecast 2006, 2007.

New Homes Market

HOUSING STARTS ACTIVITY CONTINUES TO MODERATELY DECLINE

A number of factors will cause the pace of new home construction activity to continue to moderately decline this year and remain flat in 2007. Economic conditions within the St. John's region will remain favourable, but not as strong as in recent years. An expected decline in overall home buying demand will also serve to reduce residential construction activity. Slower price growth, combined with higher land, labour and material costs and rising mortgage rates will result in further gains in monthly home ownership costs and prevent some potential buyers from entering the market. As home demand eases, heightened competition from a growing inventory of more affordable existing homes will also restrain housing starts over the forecast period. Accordingly, total housing starts will decline to 1,450 units this year and next. While total housing starts will drop off, expect the single-detached segment of the market to be impacted the most. On balance, single-detached starts will fall by 8.8 per cent this year to 1,000 units and forecast to remain at this level in 2007.

SLIGHT INCREASE IN MULTIPLE STARTS ACTIVITY

Multiple housing starts are expected to increase slightly this year, partly due to public sector investment in affordable rental housing. Positive net-migration to the St. John's region, smaller household structures, an aging population, and increased economic activity and employment will support higher condo starts this year and next, as demand increases and current inventories get absorbed. Higher mortgage carrying costs will maintain demand for basement apartments. The general reduction in home buying demand will contribute to fewer semi-detached starts this year. In 2004 there was a four-fold increase in semi-detached starts, followed by a 45 per cent reduction in 2005. Much of the pent-up demand for this product was met and we are now seeing a retraction in new semi-detached starts. However, new lower-priced semi-detached units will remain attractive, as long as new single-detached prices continue to climb over the forecast period. Multiple housing starts will increase 2.7 per cent to 450 this year and is expected to stay at this level next year.

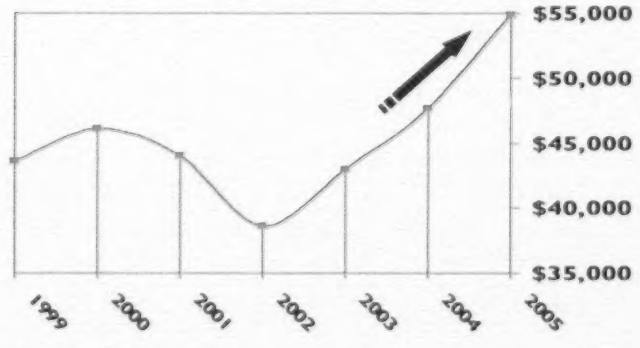
Rental Market

VACANCY RATE EDGES HIGHER

Several factors will keep the vacancy rate relatively stable over the next 12 to 24 months. The movement of renter households to home ownership will continue, but at a slower pace, as home ownership costs increase. Youth (age 18-24) net-migration loss will continue to have a negative impact, as 90 per cent of this demographic are renter households. Continued demand for basement apartments in new single-detached homes to meet home-buyer affordability requirements will compete with and affect

Price Difference Growing in St. John's Area

New Single-Detached Absorbed vs. Average MLS® Price



Source: CMHC, CREA
Note: Single-Detached consists of Bungalow, Split Level, 1.5 Storey, and 2 Story dwellings.

the performance of larger rental projects. Public sector investment in affordable rental housing will increase supply this year and next. Accordingly, the vacancy rate for private structures containing three or more units is forecast to edge slightly higher to 5 per cent this year and remain at that level in 2007. Despite the outlook for slightly more vacancies, monthly rents are expected to increase in the three to five per cent range in each of the next two years as landlords attempt to recover the large investment associated with significant renovation to the rental stock in recent years.

St. John's Metropolitan Area
Spring 2006

RESALE MARKET	2005	2006(f)	% Chg	2007(f)	% Chg
MLS® Average Monthly Active Listings	1,352	1,400	3.6%	1,500	7.1%
MLS® Sales	3,196	2,950	-7.7%	2,800	-5.1%
Benchmark House Price (3-Bed. Bungalow, December)					
East	$168,000	$175,728	4.6%	$181,000	3.0%
West	$168,000	$175,728	4.6%	$181,000	3.0%
Mount Pearl	$166,000	$173,636	4.6%	$178,845	3.0%
NEW HOME MARKET					
Absorption Rates (Monthly Average)					
Single and Semi-detached	90	85	-5.6%	100	17.6%
Starts	1,534	1,450	-5.5%	1,450	0.0%
Single	1,096	1,000	-8.8%	1,000	0.0%
Multiple	438	450	2.7%	450	0.0%
Ownership	438	400	-8.7%	400	0.0%
Rental	0	50	N/A	50	
Average Absorbed New House Price	$196,437	$206,259	5.0%	$212,447	3.0%
RENTAL MARKET					
Vacancy Rate (October)	4.5%	5.0%		5.0%	
Rental Rate (annual % change) 2 bdr	2.6%	3.0%		5.0%	
ECONOMIC OVERVIEW					
Mortgage rate (3 yr. term)	5.59%	6.22%		6.31%	
Mortgage rate (5 yr. term)	5.99%	6.61%		6.78%	
Employment growth (persons)	1,200	1,154		1,050	
Net Migration	1,706	1,600		1,500	

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